

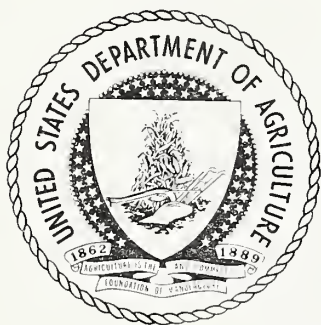
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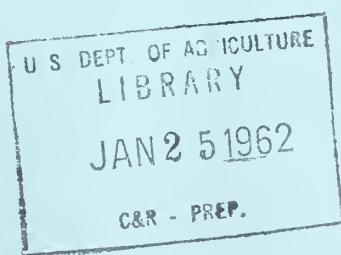
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LOAN PROGRAMS of the Rural Electrification Administration

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LOAN PROGRAMS OF THE RURAL ELECTRIFICATION ADMINISTRATION

Today nearly five million rural consumers in the United States receive electric service from local organizations financed by loans from the Rural Electrification Administration. In Washington, REA loans to 23 borrowers, including 13 cooperatives and 10 public utility districts, have financed electric service for more than 38,000 farms and other rural consumers.

Under REA's newer telephone loan program, loans already approved will result in more than 1.6 million rural subscribers getting modern dial telephone service. In Washington, 13 REA telephone borrowers already have cut over 34 rural exchanges to dial, and 26,000 subscribers soon will receive new or improved service as a result of REA-financed construction.

All this is being achieved under an interest-bearing, self-liquidating loan program, without a gift or grant-in-aid. The success of the REA programs is proof of the integrity and sound business sense of the American farmer.

How REA Got Started

REA was created by Executive Order of President Roosevelt in 1935 as an emergency relief agency. At that time, only 10.9 percent of all farms in the United States were receiving central station electric service. Most rural areas had been by-passed as "unprofitable" by power companies and it was hoped that REA loans would enable the companies to extend service to more of the Nation's farms.

By 1936, however, it was apparent that power companies would not avail themselves of REA financing, and Congress passed the Rural Electrification Act, granting an REA loan preference to non-profit and cooperative associations and to public bodies. Farmers were quick to begin organizing local cooperatives to obtain REA loans, and the great task of electrifying all parts of rural America began in earnest. In Washington, the first REA loan was approved as early as May 1936, and the first REA-financed lines were energized in October 1937.

Today REA has approved about \$4.5 billion in electrification loans to 1,089 borrowers in 46 States and Puerto Rico, including 986 cooperatives. About 97 percent of all farms in the United States have electricity, and REA borrowers are serving more than half these farms, along with more than 2 million non-farm rural consumers. The loans are being repaid on time and even ahead of time. Washington borrowers have repaid \$13.4 million on the principal of their \$50 million in REA loans and \$5.6 million in interest. Nationally, REA last month received the one billionth dollar in principal payments in its electric loan program.

The REA Approach

One key to the success of the electric loan program is REA's area coverage policy. Under this policy, lines constructed by REA borrowers are planned to serve entire rural areas, including both the sparsely settled areas and the more populous ones. The test is not whether an individual line or section will be self-supporting, but whether the entire system will be feasible as a whole. As a result of area coverage, thousands of relatively isolated farms and ranches have been able to obtain electric service at reasonable rates.

To give support to the area coverage concept, the Congress in 1944 amended the Rural Electrification Act to set an interest rate of 2 percent and a maximum maturity of 35 years on all REA loans. The Congress decided that financing at a 2 percent rate and long terms would permit area coverage rural electrification to proceed on a nationwide basis, including the thinly settled regions of the far West and the Great Plains and low income rural areas. The Congress also felt that a stable and permanent interest rate was essential to permit borrowers to plan their financial futures effectively.

Co-ops and REA

REA itself operates no electric facilities. Its principal functions are to lend money and assure repayment through loan-supporting activities. The typical REA borrower, the rural electric cooperative, is locally owned and locally managed private enterprise, operating under laws of the State in which it does business. Cooperatives are organizations of private individuals who are taking this means of meeting their own private needs. REA's relationship to each cooperative is similar to that between any lender and borrower.

Each co-op member has one vote, which he may exercise by attending his cooperative's annual membership meeting and voting for members of the board of directors. The directors in turn select a manager, who is in charge of operating the co-op. A cooperative represents a kind of economic democracy, responsive to the needs and desires of the consumers it serves.

Cooperatives pay a variety of State and local taxes, as required by law. They do not pay Federal income taxes because they make no profit. Co-ops are owned and operated by their members for the sole purpose of supplying an essential service at cost. All operating revenues over and above the cost of providing the service and payment of applicable taxes are either returned to members in cash or used to increase their equity. Any business enterprise willing to operate in this manner does not have to pay taxes.

Where Co-ops Get Their Power

The power that REA borrowers distribute to rural consumers comes from a variety of sources. In 1960, rural electric systems purchased 38 percent of their wholesale power requirements from commercial power companies. They bought 39 percent from Federal agencies, like Bonneville. Seven percent was purchased from other public agencies, and 16 percent was generated by the REA borrowers themselves.

The Rural Electrification Act empowers the REA Administrator to approve loans to finance "generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service..." It has been a policy of long standing at REA that the Administrator make generation and transmission loans under the following conditions:

(1) where the loan is necessary to assure an adequate and dependable supply of power, or (2) where it will result in lower cost power than available from outside sources. The present REA Administrator, Norman M. Clapp of Wisconsin, has added a third criterion for making such loans, which states that REA may approve them where necessary to protect the security and effectiveness of REA-financed systems.

Some REA-financed generating facilities are owned and operated by individual borrowers, but the larger REA loans have been approved to finance generating plants and transmission lines for federations of distribution cooperatives. Member co-ops direct the operations of these federated cooperatives.

Impact of Rural Electrification

The impact of rural electrification on farm and rural life ranks in significance with the impact of the tractor, the truck, and the paved road. Electricity has freed the farm wife from a lifetime of drudgery. It has helped enormously to increase farm production, and it already is being applied to more than 400 farm chores. It has revolutionized the dairy, poultry, and meat feeding industries. It put radios and television into rural homes, ending the long isolation of the farmer.

It continues to help the town businessman and city worker as well as the rural resident, for it has created a vast market for electric appliances and equipment, plumbing, and wiring. The rural market for electric equipment alone is estimated at \$1 billion annually. Electricity also has led to the development of thousands of new business firms, industries, and processing plants in rural America, and this trend has only just begun. More recently, REA borrowers have been making a significant contribution to the national defense by supplying electricity and communications for our widely dispersed missile sites, military bases, and tracking stations.

Rural people are just beginning to realize the full benefits of rural electrification. They are using more and more electricity in the home and on the farm. This and the fact that consumers are being added to REA-financed lines at a rate of more than 100,000 a year cause rural power requirements to double every 5 to 7 years. Borrowers are confronted with the continuing task of heavying up their systems and finding more power to put into them.

REA Telephone Loans

On October 28, 1949, President Truman signed an amendment to the Rural Electrification Act authorizing the REA Administrator to make loans to improve and extend telephone service in rural areas. The same terms apply to these loans as to REA electric loans.

The program is helping rural people to accomplish two major tasks: to replace obsolete magneto and common battery telephone systems with modern dial service and to extend dial service to rural people who have never had telephone service of any kind.

In 1950, the year that the first REA telephone loan was approved, only 38.2 percent of farms in the United States had telephones of any kind. Today 65 percent have phones, and a larger proportion than ever are dial. In Washington in 1950, 57.5 percent of the farms had telephones, and by 1959, the figure had risen to nearly 85.4 percent. The 13 REA telephone borrowers in Washington contributed to this increase, and work is in progress now on additional facilities.

It is generally recognized today that the farmer needs fast, reliable telephone service as much -- or more -- than the city resident, since he lives at some distance from his market, his physician, his friends and neighbors. The farmer, in turn, had indicated his willingness to pay what is necessary to get good service, and the REA telephone loan program shows every sign of proving as successful, both in accomplishments and in its repayment record, as the 26-year-old electric loan program. By July 1, 1961, Washington telephone borrowers had repaid \$554,641 in principal and \$495,087 in interest, along with \$75,871 in principal in advance of due dates.

